Nancy is a 30 year-old, recently single, working mom. She is employed as the manager of a local animal shelter and earns $36,000/year.

In accordance with her divorce settlement, each month Nancy receives non-taxable, child-support payments from her ex-spouse. Additionally, Nancy received a one-time equalization payment of $135,000 for her share of the family home which is sitting in a bank account earning interest.

Nearly all of Nancy`s income is used to cover her bills but she still manages to put a little away each month, through a pre-authorized contribution (PAC) programme into an RRSP.

Nancy`s RRSP balance is quite modest but she has contribution carry-forward (room) of $34,000. She is wondering how to best make use of her savings. She meets with Tenishia, a financial planning professional, who makes the following suggestions.

1) Draw on the large bank balance to fully fund the RRSP by making a $34,000 contribution immediately and expand the PAC to $200 monthly.
2) Open a TFSA and fully fund it in the same manner as the RRSP. Establish a regular PAC of $50 monthly.

Nancy asks Tenishia to calculate the impact these changes would have on her situation:

<u>EXISTING RETIREMENT FUNDING PLAN</u>

Current age:	30 years
Retirement age:	65 years
Difference:	25 years
RRSP beginning value:	$6,295
Monthly contribution:	$100
Long-term growth expectation:	6.4% per annum (FPSC L/T growth rate for Canadian equities)
Future value of RRSP at retirement:	$151,211
Future value of bank account:	<u>$164,734</u> (after-tax interest rate of 0.7994%)
Total available in retirement:	**$315,945**

Since Nancy is 30 years of age and has never held a TFSA, she has accumulated contribution room of $57,500 and RRSP contribution room of $34,000 - for a total of $91,500 in tax-advantaged savings opportunities this year. If Nancy were to use the proceeds of her divorce settlement to take full advantage of her accumulated registered account potential, then her retirement picture might look like this:

<u>REVISED RETIREMENT FUNDING PLAN</u>

Current age:	30 years
Retirement age:	65 years
Difference:	25 years
RRSP beginning value:	$40,295 ($6,295 + $34,000)
Monthly contribution:	$200
Long-term growth expectation:	6.4% (FPSC L/T growth rate for Canadian equities)
Future value of RRSP at retirement:	**$346,186**

REVISED TFSA FUNDING PLAN

Growth window:	25 years
TFSA beginning value:	$57,500
Annual contribution:	$50
Long-term growth expectation:	6.4% (FPSC L/T growth rate for Canadian equities)
Future value of TFSA at age 65:	**$320,454**

CONCLUSIONS:

- By making decisions that are consistent with her financial objectives and taking advantage of tax planning opportunities, Nancy has significantly increased the chances of reaching her financial goals.
- The registered account funding plans outlined above would completely exhaust Nancy's divorce settlement over the 25-year period. However, sticking to the plan would result in **$666,640** available for retirement spending, approximately one-half of which is non-taxable on withdrawal and does not affect income tested government benefits in retirement.

- Tenishia's recommended registered plan strategy would result in approximately **$350,695** more than where Nancy's savings are currently headed, opening up the following options:

    1) Nancy could continue working to age 65 and would have approximately twice as much money available to fund her retirement.
    2) Nancy could consider retiring sooner, depending on her retirement income needs.

- Tenishia also suggests that Nancy may want to consider the use of a Registered Education Savings Plan (RESP) to help fund post-secondary education expenses for her child. This plan could co-exist with the TFSA funding strategy by redirecting some of the bank balance (on a yearly basis) to the RESP to take maximum advantage of available Government grants.